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DEPARTMENT FOR AF/EX AND AF/E

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TAGS: [ECON](#) [ETRD](#) [EINV](#) [EWWT](#) [ER](#) [DJ](#)
SUBJECT: ERITREA'S MORIBUND FREE ZONES

Classified By: Ambassador Ronald K. McMullen for reason 1.4(d)

¶1. (SBU) Eritrea's planned Free Zones (foreign investor and trader friendly enclaves) are often touted along with gold mining as the key to reviving the country's flagging economy. However, following the June 08 border clash with Djibouti, shipping costs to Massawa have increased and port capabilities are falling further behind modern region transshipment centers like Jeddah and Djibouti. As a result, the 13 new factory-sized buildings at Massawa's Free Zone stand empty. Newly poured concrete aprons and floors are already cracked and the place has the feel of an instant ruin.

¶2. (SBU) Dr. Araia Tseggai, the AmCit CEO of Eritrea's Free Zone Authority, told the ambassador July 24 that major shipping lines no longer call at the port of Massawa due to lack of cargo volume. Rather, they offload Eritrea-bound goods at Jeddah, where they sit until critical mass accumulates for a shuttle run down the Red Sea. Due to the severing of transportation links with Djibouti in the wake of the June 08 border clash, Jeddah now has almost a monopoly on shuttling cargo to Massawa and costs have risen sharply. Further, Massawa has no modern gantry cranes designed to handle containerized cargo, so the port itself is slow and inefficient compared to Jeddah and Djibouti. With expensive shipping and an inefficient port, no major investor has stepped forward to kick-start the Massawa Free Zone, Dr. Araia lamented.

¶3. (C) COMMENT: In addition to expensive shipping and an inefficient port, Post suspects lack of rule of law and contract enforcement have spooked many potential investors. The Isaias regime's unilateral abrogation of the Intercontinental Hotel's contract last year had a chilling effect on the business climate, and rumblings of sanctions against Eritrea have furthered investor wariness. Slow, regime-provided internet connections, concern about forced labor in the guise of National Service, and a record of uncompensated expropriation do nothing to reassure potential Free Zone investors. Cargill reportedly considered bringing in bulk commodities for bagging and regional distribution, but (perhaps understandably) no longer appears interested.

MCMULLEN